



GASB 34 Implementation

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Introduction



GASB 34

Implementation Dates

<u>Phase</u>	<u>Operating Revenue*</u> <u>as of 6/30/99:</u>	<u>Required Date of</u> <u>Implementation:</u>
I	■ \$100M +	■ 6/30/02
II	■ \$10M-\$100M	■ 6/30/03
III	■ -\$10M	■ 6/30/04

*Operating Revenue =
Total Revenues LESS
-bond proceeds
-transfer amounts

City Implementation

- ◆ Meet with your auditor to confirm the city's appropriate implementation date.
- ◆ Early implementation is allowable.

GASB 34

Before:

- No infrastructure assets
- Too many funds but not enough information
- Existing financial statements difficult to understand

After:

- All assets of the city will be reported
- Governments will be more accountable
- Audits become more understandable

Components of the GASB 34 Reporting Model

- ◆ Management discussion and analysis (New)
- ◆ Government-wide financial statements
- ◆ Fund financial statements
- ◆ Notes to the financial statements
- ◆ Other required supplementary information

Components of the GASB 34 Reporting Model (Continued)

Management Discussion and Analysis (New)

- ◆ Opportunity for officials to showcase achievements and plans
- ◆ Provides an analytical overview of the government's financial activities
- ◆ Introduces the basic financial statements
- ◆ Required supplementary information

Components of the GASB 34 Reporting Model (Continued)

Government Wide Financial Statements (New Format)

- ◆ Statement of net assets
 - Capital assets (previously in account group)
 - Infrastructure (new)
- ◆ Statement of activities
 - Function

Components of the GASB 34 Reporting Model (Continued)

Fund Financial Statements

(No Significant Changes)

- ◆ Various financial statements
- ◆ Focus on information about the government's major funds

Components of the GASB 34 Reporting Model (Continued)

Notes to the Financial Statements

(No significant changes)

- ◆ Provide useful information
- ◆ Essential to user in understanding the financial statements

Components of the GASB 34 Reporting Model (Continued)

Other Required Supplementary Information (Prepared by auditors)

- ◆ Budgetary comparison schedules
 - No significant changes
 - General fund
 - Major special revenue funds



COMPONENT UNITS

Component Units

◆ What is a component unit?

A legally separate organization which, because of its close relationship to the city, must be included as part of the financial statements.

Component Units

- ◆ Within the financial statements, the component unit's information can be presented either as
 - **Blended**: combined with the city' financial information, or
 - **Discretely presented**: shown separately within the financial statements.

Component Units

Considerations:

- Do you have component units?
- Are your component units blended or discretely presented?

Component Units

- ◆ Component units must implement GASB 34 no later than the same year as the city.
- ◆ However, earlier implementation is allowed.

Component Units

Recommendation:

Contact each discretely presented component unit and its auditor (if known) to communicate the city's required implementation date.



CAPITAL ASSETS AND INFRASTRUCTURE

What information about capital assets and infrastructure needs to be available for the auditors?


The identity, valuation, and depreciation of:

1. Streets, roads, bridges, sidewalks, etc.
2. Land and buildings
3. Vehicles
4. Equipment

Need help?

We can show you how to:

- Identify your infrastructure
- Value your infrastructure
- Depreciate your capital assets and infrastructure



How do you identify
infrastructure?

What is Infrastructure?

- ◆ Infrastructure is a capital asset
- ◆ Capital Assets are assets that have a useful life greater than one year

Infrastructure Asset Examples

- ◆ Streets
- ◆ Bridges
- ◆ Tunnels
- ◆ Drainage systems
- ◆ Water and sewer systems
- ◆ Dams
- ◆ Lighting systems

Capital Assets Examples

(other than Infrastructure)

- ◆ Land
- ◆ Buildings
- ◆ Vehicles
- ◆ Equipment
- ◆ All other tangible or intangible assets used in operations and with initial lives extending beyond a single reporting period such as zoo animals, art work, historical artifacts, etc.

Sources of Infrastructure Data

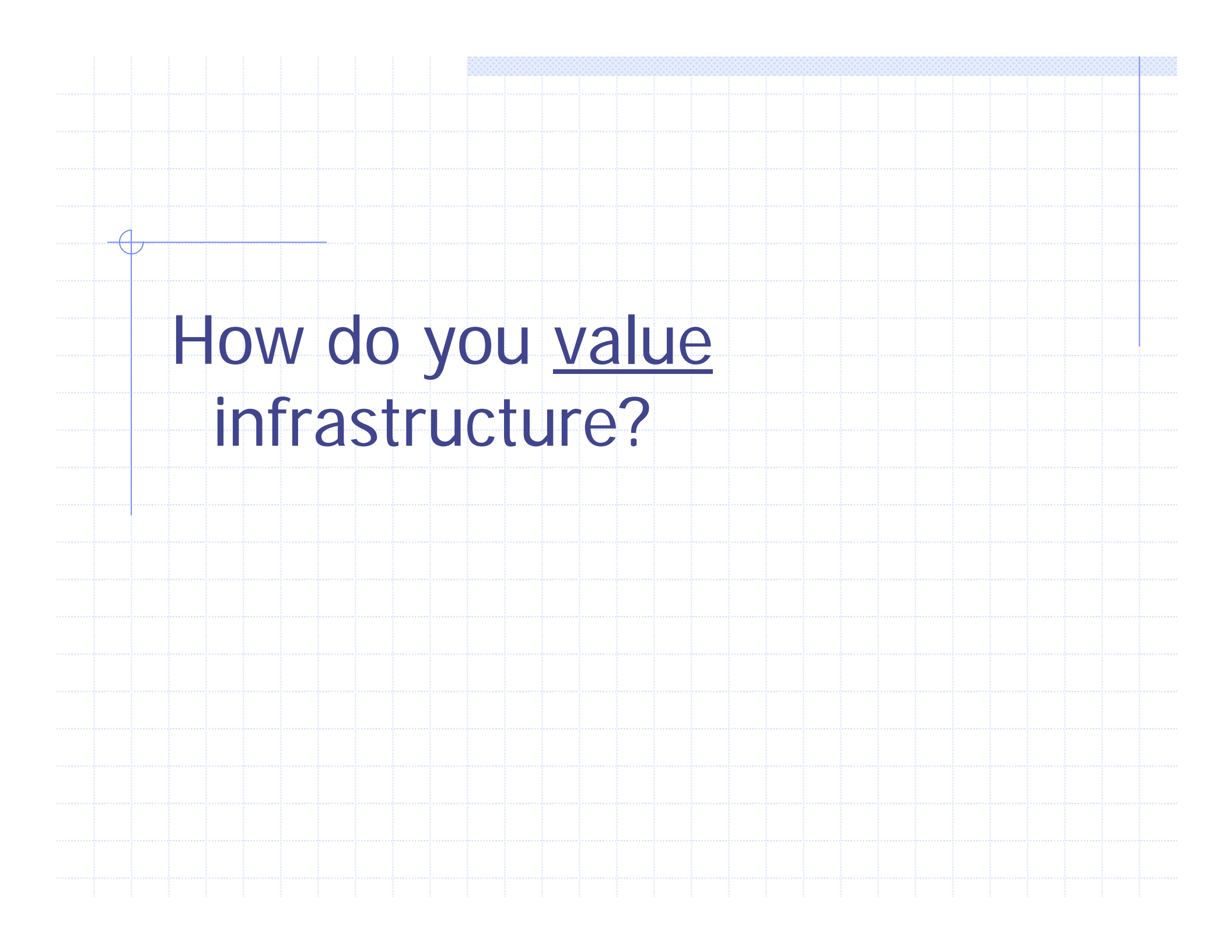
Internal Sources:

- Public Works Superintendent
- City Clerk
- Bond Issue Documents
- City Minutes and Ordinances

Sources of Infrastructure Data

External Sources:

- **KY Transportation Cabinet**
 - ◆ Department of Highways
 - ◆ (502) 564-3730
- **Public Service Commission**
 - ◆ Engineering Division
 - ◆ (502) 564-3940
- **KY Infrastructure Authority**
 - ◆ (502) 564-2924
- **Bridge Inventory**
 - ◆ Division of Operations
 - ◆ Ken Watson 502-564-4556
 - ◆ Bridge inventory includes year of construction



How do you value
infrastructure?

Establish a Capitalization Policy

- ◆ Before you value your infrastructure, the city needs to establish a capitalization policy
 - This sets an amount for reporting infrastructure on the financial statements
- ◆ An amount should also be set for all other types of capital assets

Capitalization Thresholds

◆ Example:

- Equipment Threshold - \$5000
- Purchase of 30 computers X \$1500 each = 45,000
- Individually may not be significant, however, cumulatively may be material
- May need to consider combining assets into groups

Exhibit 2 – Land and Building Inventory

Exhibit 3 – Vehicle Inventory

Exhibit 4 – Equipment Inventory

Historical Cost of Infrastructure

- ◆ Use the “historical” (original, actual) cost records of the street or bridge. If this information is not known then-
- ◆ Estimate what it would cost today to build the same street or bridge, and
- ◆ Deflate the construction cost back to the year built using the infrastructure construction price index

How to calculate historical cost

◆ 14 miles of 20 ft. wide paved street built in 1982

◆ 2001 Cost

- 14 miles x 5,280 feet (1 mile) = 73,920 Linear Feet
- 73,290 LF x \$55/LF = \$4,065,600

◆ 1982 Cost

- $\$4,065,600 \times 59\% \text{ (1982 index at } 88.5^*) = \$2,398,704$
 - **\$2,398,704 is your Historical Cost**
- *88.5 index is 59% of the 2001 Construction Cost Index at 151.2

Establishing Rural Road/Street System Values*



Roads.mde

*Kentucky Transportation Center



How do you depreciate capital assets and infrastructure?

Five elements must be known to calculate depreciation

1. Date the asset was placed in service
2. Historical cost or fair market value for donated items
3. Estimated useful life
4. Salvage value (if any)
5. Depreciation method
 - ◆ Straight-line Depreciation

Useful Lives of Capital Assets

- ◆ Most capital assets have an identifiable useful life and should be depreciated over that lifetime
- ◆ Your packet includes examples of Suggested Useful Lives
 - These are only estimates and can be modified to fit your situation

Salvage Value of Capital Assets

The estimated value of the asset at the end of its useful life such as the:

- scrap value,
- resale value,
- trade-in value, etc.
- pre-determined value for the structure

Salvage Value of Infrastructure

◆ Salvage Value Estimates

- 20% of construction costs for paved roads/streets and bridges
- 10% of construction costs for unpaved roads and sidewalks
- Salvage value for infrastructure would include the road beds which are not replaced during resurfacing

Depreciation Approach

- ◆ General straight-line depreciation to the original book value
- ◆ Provides accounting information only

Cost of Asset
Less: Salvage Value
Depreciable Cost

Divided by: Useful Life
Annual Depreciation Expense

How to use the Straight-Line Depreciation Method

◆ \$21,000 Ford F150

- Useful Life of 5 years
- Placed in service July 2000
- \$1000 Salvage Value
- Straight-line Depreciation
- \$4,000 per year depreciation

◆ (Cost – Salvage Value) divided by Useful Life = Depreciation Cost per year

- $(\$21,000 - \$1,000) / 5 \text{ years} = \$4,000 \text{ Annual Depreciation}$

◆ Age of Asset x Annual Depreciation = Accumulated Depreciation

- $2 \text{ years} \times \$4,000 = \$8,000 \text{ Accumulated Depreciation}$

◆ Cost – Accumulated Depreciation = Asset Value at June 30, 2002

- $\$21,000 - \$8,000 = \$13,000 \text{ Asset Value at June 30, 2002}$

Accumulated Depreciation

- ◆ Total depreciation expense from acquisition thru current year
- ◆ Annual Depreciation Expense x Number of Years (thru June 30) = Accumulated Depreciation

Historical Cost
Less: Accumulated Depreciation
Current Asset Value

Calculating Depreciation on Infrastructure



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Exhibit 7 - Road Segment Program Example

Exhibit 8 - Road Segment Report (District One)

Exhibit 9 - Road Segment Report (Bridges)

Who does this apply to?

◆ Phase III Governments

- **NOT** required to report infrastructure acquired or constructed prior to July 1, 2003
- Only required to report newly acquired infrastructure after July 1, 2003
- Phase III Governments are **strongly** encouraged to retroactively report infrastructure acquired prior to July 1, 2003 – especially if there is related debt reported in the financial statements

Who does this apply to?

◆ Phase II Governments

- All infrastructure acquired or constructed after June 30, 2002 must be reported
- Have 4 additional years to report retroactive infrastructure assets acquired between June 30, 1980 and June 30, 2002
- Reporting infrastructure assets acquired or constructed prior to June 30, 1980 is optional

Kentucky Transportation Center

- ◆ Website (www.ktc.uky.edu)
- ◆ Has done extensive work in calculating average useful lives
- ◆ Has created the Road Segment Program for calculating depreciation
- ◆ Provided in THE LINK newsletter the Price Index for Highway Construction
- ◆ Patsy Anderson, Manager, Kentucky Technology Transfer Program
 - 1-800-432-0719

Helpful Websites

◆ APA Website (www.kyauditor.net)

■ GASB 34

- ◆ E-mail link to GASB 34 hotline
- ◆ Frequently Asked Questions from Local Officials
- ◆ Training Materials
- ◆ Regular updates for new information
- ◆ Useful Links

◆ GASB Website (www.gasb.org)



MANAGEMENT DISCUSSION AND ANALYSIS

MD&A Example

Required Supplementary Information

Information required to be presented in the audit report, separate from the basic financial statements:

- ◆ Management's Discussion & Analysis (MD&A)
- ◆ Budgetary comparison schedules

Where is required supplementary information in the audit report?

- ◆ MD&A, prepared by the city management, precedes the presentation of basic financial statements
- ◆ The remaining required supplementary information, prepared by the auditor, is presented immediately following the notes to the financial statements

When must MD&A be completed?

- ◆ Begin MD&A preparation after closing of books
- ◆ Submit to auditors before the end of fieldwork

GASB 34 Paragraph 11 requires and limits MD&A to the following items:

- a. Brief discussion of the basic financial statements, including:
 - The relationships of the statements to each other
 - The significant differences in the information
- b. Condensed financial information with comparative information derived from the government-wide financial information

MD&A components (cont'd)

- c. Analysis of financial position and results of operations using the government-wide financial statements, including an explanation for significant changes from prior year
- d. Analysis of balances and transactions of major individual funds

MD&A components (cont'd)

- e. Analysis of significant variations between original and final amounts; and between final budget amounts and actual budget results for the general fund
- f. Description of significant capital asset and long-term debt activity

MD&A components (cont'd)

- g. Does not apply to most cities. It relates only to governments selecting the “modified approach” for reporting infrastructure. Cities who adopt the “modified approach” should contact their auditor.
- h. Description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations.

Auditor's Reporting and Required Supplementary Information

- ◆ Failure to prepare an MD&A will not affect the auditor's opinion on the financial statements
- ◆ Auditors must include an explanatory paragraph if:
 - MD&A is omitted, or
 - MD&A contains materially misleading information

GASB Statement 34 Resources

- ◆ *GASB's Guide to Implementation of GASB Statement 34 on Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*
- ◆ <http://www.gasb.org/repmodel/gasb34main.html>
Select "Resources On Line" and "Early Implementers of Statement 34" for example financial statements prepared using Statement 34; and Statement 34 implementation discussions
- ◆ www.kyauditor.net
Select "GASB 34"